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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

OMB APPROVAL  
OMB Number: 3235-0123  
Estimated average burden  
hours per response . . . 12.00

SEC FILE NUMBER  
8-28900

**FACING PAGE**

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/01 AND ENDING \_\_\_\_\_  
MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:

**WESTMINSTER RESEARCH ASSOCIATES, INC.**

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

**150 EAST 52<sup>ND</sup> STREET - 20<sup>TH</sup> FLOOR**

**NEW YORK**

(No. and Street)  
**NEW YORK**

**10022**

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

**CHRISTOPHER SPRINGER**

**212-468-7560**

(Area Code - Telephone No.)

**B. ACCOUNTANT IDENTIFICATION**

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

**Ernst & Young LLP**

**787 Seventh Avenue**

(Name - of individual, state last, first, middle name)

**New York**

**NY**

**10019**

(Address)

(City)

(State)

(Zip Code)

**CHECK ONE:**

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

**PROCESSED**  
**MAR 21 2002**

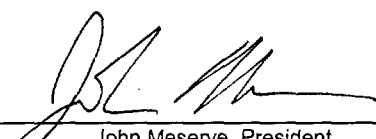
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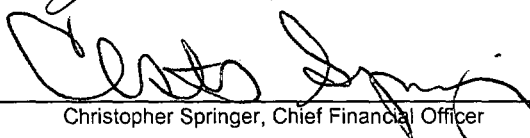
**THOMSON  
FINANCIAL**


\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See section 240.17a-5(e)(2).

OATH OR AFFIRMATION

We, John Meserve and Christopher Springer, affirm that, to the best of our knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Westminster Research Associates, Inc., as of December 31, 2001, are true and correct. We further affirm that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

  
John Meserve, President

  
Christopher Springer, Chief Financial Officer

  
Notary Public  
Notary Public, State of New York  
No. 02SC038439  
Qualified in New York County  
Commission Expires Jan. 23, 2003

This report\*\* contains (check all applicable boxes):

- ☒ (a) Facing page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Operations.
- ☒ (d) Statement of Cash Flows.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietor's Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims or Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A or Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.
- ☐ (o) Schedule of Segregation Requirements and Funds in Segregation for Customers Trading on U.S. Commodity Exchanges.
- ☐ (p) Statement of Secured Amount and Funds Held in Separate Accounts for Foreign Futures and Options Customers Pursuant to Commission Regulation 30.7.
- ☒ (q) Supplementary Report of Independent Auditors on Internal Control required by SEC Rule 17a-5.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

STATEMENT OF FINANCIAL CONDITION

Westminster Research Associates, Inc.

December 31, 2001

with Report of Independent Auditors



Westminster Research Associates, Inc.

Statement of Financial Condition

December 31, 2001

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■ Ernst & Young LLP  
787 Seventh Avenue  
New York, New York 10019

■ Phone: (212) 773-3000  
www.ey.com

## Report of Independent Auditors

The Board of Directors of  
Westminster Research Associates, Inc.

We have audited the accompanying statement of financial condition of Westminster Research Associates, Inc. (the "Company") as of December 31, 2001. This statement of financial condition is the responsibility of the Company's management. Our responsibility is to express an opinion on this statement of financial condition based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of financial condition. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of Westminster Research Associates, Inc. at December 31, 2001, in conformity with accounting principles generally accepted in the United States.

*Ernst & Young LLP*

February 26, 2002

Westminster Research Associates, Inc.

Statement of Financial Condition

December 31, 2001

**Assets**

Cash and equivalents	\$ 23,717,483
Cash segregated in compliance with federal regulations	200,000
Receivable from brokers	2,910,326
Goodwill	49,891,772
Intangible assets, net of accumulated amortization of \$183,327	4,928,749
Other assets	<u>3,087,704</u>
Total assets	<u>\$ 84,736,034</u>

**Liabilities and stockholder's equity**

Liabilities:

Deferred soft dollar and commission recapture payable	\$ 19,589,415
Taxes payable	1,100,484
Other liabilities and accrued expenses	<u>1,171,986</u>
	<u>21,861,885</u>

Commitments and contingencies (*Note 6*)

—

Stockholder's equity:

Common stock, no par value:	
1,000 shares authorized, issued and outstanding	2,601,920
Additional paid-in capital	59,498,080
Retained earnings	<u>774,149</u>

Total stockholder's equity 62,874,149

Total liabilities and stockholder's equity \$ 84,736,034

*The accompanying notes are an integral part of this statement of financial condition.*

## **Westminster Research Associates, Inc.**

### **Notes to Statement of Financial Condition**

December 31, 2001

#### **1. Organization and Description of Business**

Westminster Research Associates, Inc. (the "Company") is a registered broker/dealer under the Securities Exchange Act of 1934. The Company's principal operations relate to providing "soft dollar" research to U.S. investment advisors and commission recapture services to certain plan sponsor clients. Revenues are primarily derived from "soft dollar" commission transactions. The Company is a member of the National Association of Securities Dealers, Inc. ("NASD").

On October 31, 2001, the Company was acquired by The Bank of New York (the "Parent") through a stock purchase agreement, making the Company an indirect wholly owned subsidiary of the Parent. The transaction is being accounted for under the purchase method of accounting. At December 31, 2001, the former shareholders were owed a retained earnings distribution of \$211,450, which is included in the Company's statement of financial condition as a component of other liabilities.

#### **2. Significant Accounting Policies**

##### **Fixed Assets**

Furniture and equipment and computer hardware are depreciated on a straight-line basis over estimated useful lives between five and seven years.

##### **Deferred Soft Dollar and Commission Recapture Payable**

When a customer's commission payments exceed its commitment, a liability is established for future research and research related services owed to that customer.

##### **Goodwill and Intangible Assets**

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142, "Goodwill and Other Intangible Assets," which changes the accounting for goodwill from an amortizing approach to an impairment-only approach. The amortization of goodwill, including goodwill

Westminster Research Associates, Inc.

Notes to Statement of Financial Condition (continued)

**2. Significant Accounting Policies (continued)**

**Goodwill and Intangible Assets (continued)**

recognized relating to past business combinations, ceases upon adoption of the new standard. Impairment testing for goodwill will be required on at least an annual basis.

Intangible assets are made up of the identifying and distinguishing attributes of the Company at the time of the purchase, and are being amortized on a straight-line basis over a range of 1 to 5 years from the date of the original acquisition.

**Other Assets**

Other assets consist primarily of prepaid purchased research services. Prepaid purchased research represents amounts paid for the acquisition of research and research related services from independent originators and suppliers on behalf of the customer. Such receivables may not be evidenced by contractual obligations.

**Income Taxes**

The Company accounts for income taxes under the liability method. Deferred liabilities are recognized for the future tax consequences attributable to the differences between the financial statement carrying amount of existing liabilities and their respective tax bases.

As of October 31, 2001, the Company is included in the consolidated federal, state, and local tax returns filed by The Bank of New York Company, Inc. ("BNY"). Income taxes are provided for pursuant to a tax sharing agreement between the Parent and BNY. The Company is included under this tax sharing agreement. Income tax benefits are recognized to the extent such benefits can be realized by BNY in its consolidated returns.

Prior to October 31, 2001, the Company filed as a Subchapter S corporation for federal income tax purposes. At that time, the Company was not subject to federal income tax since all items of income and deductions and federal tax liability flowed directly through to the shareholders. As of October 31, 2001, the Company is treated as a Subchapter C corporation for tax purposes and is subject to federal, state, and local income taxes.



## **Westminster Research Associates, Inc.**

### **Notes to Statement of Financial Condition (continued)**

#### **2. Significant Accounting Policies (continued)**

##### **Use of Estimates**

The preparation of the statement of financial condition, in conformity with accounting principles generally accepted in the United States, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the statement of financial condition. Actual results could differ from those estimates. Financial instruments recognized in the statement of financial condition approximate their carrying value, as such financial instruments are short-term in nature, bear interest at current market rates or are subject to repricing generally on a daily basis.

##### **3. Regulatory Requirements**

As a registered broker-dealer, the Company is subject to the Securities and Exchange Commission's ("SEC") Uniform Net Capital Rule, which requires the maintenance of net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debits arising from customer transactions, as defined. At December 31, 2001, the Company had net capital of \$4,618,828 and its net capital requirement was \$250,000.

On December 27, 2001, the Company notified the NASD that it was holding customer funds, established a segregated account and deposited an amount sufficient to meet the requirements of Rule 15c3-3 of the SEC. Subsequently, the Company applied to amend its NASD membership agreement to allow it to hold customer funds. The NASD has not yet approved the application.

##### **4. Related Party Transactions**

At December 31, 2001, the Company had outstanding letters of credit with the Parent of \$246,340.

Westminster Research Associates, Inc.

Notes to Statement of Financial Condition (continued)

**5. Retirement Savings Plan**

All employees of the Company are eligible to participate in a retirement savings plan sponsored by an affiliate that has two components, a defined contribution profit sharing plan and a 401(k) match program. The Company is required to make annual contributions to the plan on behalf of its employees.

**6. Commitments and Contingencies**

The Company is obligated under a non-cancelable operating lease to pay the following minimum rentals:

	<u>Amount</u>
Year:	
2002	\$ 198,924
2003	198,924
2004	206,836
2005	212,487
2006	212,487
Thereafter	<u>371,852</u>
	<u>\$ 1,401,510</u>

The operating lease is subject to periodic escalation charges.

**7. Off-Balance-Sheet Risk**

In the normal course of business, the Company's customer activities involve the execution and clearance of customer securities transactions through clearing brokers. These activities may expose the Company to off-balance-sheet risk in the event the customer is unable to fulfill its contractual obligation since the Company has agreed to indemnify its clearing brokers for losses that the clearing brokers may sustain from the clients introduced by the Company.